

## Negotiation of License Agreements

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## Negotiation of License Agreements

***Presented by:***

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**Benjamin C. Dibling, Ph.D.,** Office of Intellectual Property, UCLA

**August 21, 2013**

# Questions?

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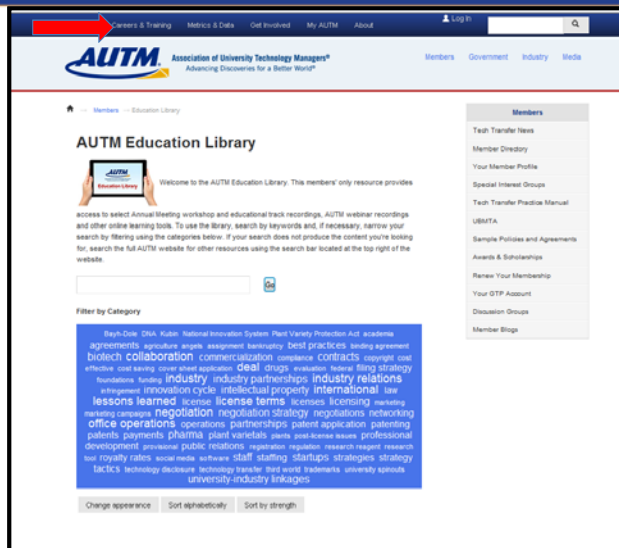
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## AUTM Global Technology Portal



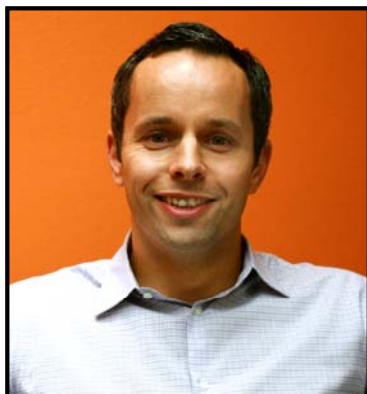
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**GTP.AUTM.NET**



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# Negotiating the Non-Profit License

AUTM Webinar  
August 21, 2013

Presented by:

Benjamin C. Dibling Ph.D. – University of California, Los Angeles

Pamela L. Cox - Marshall, Gerstein & Borun LLP

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## Overview of this Case Study-Based Session

- Introduction to the case study
- Terms where the parties are aligned
- Barriers to reaching agreement
- Negotiation strategies
- Simulated negotiation
- Analysis of the negotiation tactics
- Audience survey

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## The Parties – HonorU (Licensor)

- HonorU's mission is to disseminate knowledge
- Out-licenses its intellectual property for development for public benefit
- It needs fair value from the license to reinvest
- Legal and policy constraints limit its flexibility

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## The Parties – NeoDx (Licensee)

- NeoDx's mission is to achieve a return on investment
- It in-licenses high quality innovations and has little internal research
- It needs to protect its investment and seeks to de-risk the deal
- It wants control of the timing of the commercialization process and how its product is protected in the market

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## Status of the Deal

- HonorU and NeoDx are in negotiations for a license to NeoDx of technology developed at HonorU
- Negotiations have stalled with NeoDx
- HonorU's professor (the inventor) created a start-up company and is pressuring HonorU to drop NeoDx and do a "faculty-friendly" deal with the start-up
- Ben and Pam were brought in to help the parties determine whether they can reach alignment on the remaining terms or need to walk away

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## Alignment on Many of the Terms

- License scope:
  - Exclusive for patent rights and copyright
  - Non-exclusive for know-how
  - Worldwide
  - Sublicensable
  - Delivery of software and antigen by HonorU with a grant-back to HonorU for non-profit use of derivative works and derivatives  
NeoDx creates

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## Alignment on Terms (continued)

- Reserved rights for U.S. government and non-profit research and/or educational purposes, to publish (but not source code) and transfer biological materials (but not software)
- Diligence provisions require:
  - Development plan
  - Semi-annual reports
  - NeoDx to meet several milestones in development of a lab-based test for predicting colon cancer

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## Alignment on Terms (continued)

- All financial terms, except timing on payments
- NeoDx's representations and warranties
- Indemnity and insurance provisions
- Miscellaneous terms, including confidentiality and prohibition on use of names

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## Barriers to Agreement

Substantive:

- Definition of the Field of Use
- Timing on payments
- HonorU's representations/warranties

Non-substantive:

- Personalities of the party's representatives affecting the negotiation
- HonorU's representative lacks authority to agree to certain changes
- Faculty member's allegiance to the parties is questionable

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## Negotiation Strategy

Ben and Pam discuss with both sides these parameters:

- Maintain clarity and focus during the negotiation
- Provide factual based counter-points, not value judgments
- Pretend we are all paid by the hour – keep a cooperative momentum going
- Control counter-productive body language

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## Negotiation Begins

- HonorU suggests that the negotiation begins with the issue of timing of the payments (as opposed to field and representations/warranties)
- HonorU desires a short payment term (comments are in normal font)
- NeoDx desires to pay once it knows the amount it will receive (comments are in italics)

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## Payment Term

- HonorU has never done a deal with a 180-day payment term.
- *In our experience, it takes at least 6 months for our customers to clear through insurance reimbursement and receive payment. We can't calculate Net Sales as of the first of invoice or delivery unless we have at least that long to settle the amount and calculate your percentage.*
- How about 90 days?
- *That's fine if it's from receipt of payment.*

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## Payment Term

- We don't accept Net Sales accruing from receipt. When our rights are practiced, we should be paid, not just in the cases where you collect.
- *Practically speaking, we would not know the amount to calculate your percentage until the customer pays NeoDx.*
- (Silence)
- *Either we agree on a reasonable time after payment is received or we could set an average price after a year of sales and pay a percentage of that price.*

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## Payment Term

- *We'd be willing to establish an average selling price one year in arrears with a 30-day from invoice term.*
- Might work, depending on how the other open issues are resolved.

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## Discussion of Negotiation Tactics

- By HonorU:
  - Ultimatums rarely are constructive - consider proposing alternatives and possible compromise
  - Use of silence was effective to prompt counter-offer
- By NeoDx:
  - Provided its rationale and stuck to it - gained "earned power"
  - Missed opportunity to use "situational power" and lock in agreement assuming other terms were acceptable

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## Next Issue to Negotiate

### HonorU's Representations and Warranties

- HonorU does not want to make any representation/warranty (comments are in normal font)
- NeoDx desires HonorU to at least represent/warrant that it has the right to enter into and grant the license (comments are in italics)

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## HonorU's Representations and Warranties

- HonorU makes no representations or warranties, in fact we disclaim them all.
- *What happens if HonorU doesn't have the rights NeoDx is paying for or it turns out it has licensed others, like the inventor's start-up, in a way that is inconsistent with NeoDx's rights?*
- We did not price the deal in a manner reflective of HonorU shouldering the risk of this type of representation and warranty.
- *NeoDx is paying for nothing if HonorU won't stand behind its rights. You must not sign very many deals.*

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## HonorU's Representations and Warranties

- We assume NeoDx has done its due diligence just like our other licensees.
- *HonorU is in the best position to perform the due diligence. All NeoDx can see are publically-available records. How could we know what deals you've done?*
- We have no money to fund due diligence.

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## HonorU's Representations and Warranties

- *Accepting the risk associated with a deal without representations and warranties is not something we can defend to our board.*
- We have no authority to negotiate these terms.
- *Who does?*
- General Counsel, but it will take forever to get with them.

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## HonorU's Representations and Warranties

- *What has the GC proposed in the past that has worked for other licensees?*
- Some policies are more important than varying terms for any one deal.
- *Sounds like they don't think you are smart enough to understand. We can move on to our last issue if you agree to setup a call with the GC.*

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## Discussion of Negotiation Tactics

- By HonorU:
  - More explanation for desired terms was given
  - "I'm not authorized" leaves NeoDx feeling their concern is not being taken seriously
- By NeoDx:
  - Personal attacks are hard to move past
  - Although NeoDx got a commitment to talk with GC, it failed to get a response to what has worked before

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## Final Issue to Negotiate

### Field of Use

- HonorU wants a field-limited license (comments are in normal font)
- NeoDx wants all fields of use (comments are in italics)

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## Field of Use

- HonorU is willing to license all fields that NeoDx can show a reasonable development commitment to move forward. NeoDx has a development plan for colon cancer but nothing else.
- *There is no data that the assay is predictive of other forms of cancer.*
- Then the field-limited license shouldn't concern NeoDx.

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## Field of Use

- *The patent claims aren't limited to colon cancer. NeoDx needs to protect its colon cancer diagnostic against off-label sales.*
- HonorU is aligned with NeoDx in its interest to protect market share but not at the expense of developing other indications.
- *It would make the most sense for one licensee, NeoDx, to develop additional products should there be other uses.*
- We don't disagree but we need to see NeoDx's credible development commitment to other uses.

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## Field of Use

- *What if we agree to sublicense on commercially-reasonable terms if there is a third party able to sell their assay in a manner that doesn't detract from our sales?*
- There is a third party already interested in the breast cancer field – the inventor's start-up company. Will you agree to sublicense the start-up?
- *This is the first we're hearing that there is another credible application and that inventor's company may compete with us! We have to reconsider the entire deal!*
- Hold on, let's not be dramatic.

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## Discussion of Negotiation Tactics

- By HonorU
  - Surprise often backfires
  - HonorU should have validated NeoDx's substantive concern rather than responding to the emotional reaction
- By NeoDx
  - Controlled use of genuine emotion can be effective
  - Remember you can always request to take a break

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## Audience Survey

1. What are the most common substantive barriers to reaching agreement?
2. What are the most common non-substantive barriers to reaching agreement?
3. What is an effective negotiation tactic you use?
4. What is an effective negotiation tactic used against you?

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## Questions? Thank You!

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## Questions? Comments?



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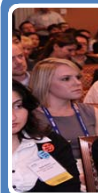
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